

## Message Text

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ACTION SS-25

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C O N F I D E N T I A L CARACAS 13139

EXDIS

E.O. 11652: GDS

TAGS: ENRG, VE

SUBJECT: PETROLEUM - EXXON AND THE PRICE ISSUE

REF: CARACAS 13133

PARIS FOR FISHLOW OF U.S. DEL TO CIEC

1. AFTER MY BREAKFAST WITH THE PRESIDENT I CHECKED WITH CREOLE'S BOB DOLPH. WITHOUT MENTIONING THE BREAKFAST, I TOLD HIM WE UNDERSTOOD THE PRICE QUESTION HAD BECOME CRITICAL.

2. AFTER NOTING THAT THE FOLLOWING IS PROPRIETARY INFORMATION, DOLPH SAID THE GOV HAD SET UNREALISTIC PRICES FOR POLITICAL REASONS AND CONTINUED TO REFUSE TO COME DOWN. HE GAVE AS AN EXAMPLE THE QUOTATION OF \$9.56 PER BARREL FOR HIGH SULFUR FUEL OIL WHEN THE SPOT PRICE IN SOME PLACES IS NOW \$8.95. AFTER DETERMINING THAT THERE WAS NO GIVE ON THE GOV SIDE EXXON HAD EXAMINED THE POSSIBILITIES WITH A VIEW TO MAINTAINING ENOUGH OFFTAKE TO PROTECT ITS INTERESTS HERE (COMPENSATION BONDS AND TECHNICAL SERVICES CONTRACT) AT THE LEAST POSSIBLE COST. THE OFFTAKE OFFER THE COMPANY THEN SUBMITTED WAS FOR 420 THOUSAND B/D, OR LESS THAN HALF OF WHAT MIGHT BE CONSIDERED THE NORMAL PRODUCTION OF THE CONCESSIONS IT NOW HOLDS. THIS FIGURE DID NOT, HOWEVER, INCLUDE ANY PROVISION FOR SUPPLYING EXXON'S ARUBA REFINERY. FOLLOWING WHAT DOLPH SAID WAS A CONVINCING EXPOSITION OF THE COMPANY'S ABILITY TO OPERATE THAT REFINERY ON ALTERNATE SOURCES OF SUPPLY, THE GOV CONSENTED TO

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NEGOTIATE THE ARUBA OFFTAKE SEPARATELY.

3. ACCORDING TO DOLPH, EXXON AND THE MINISTER OF MINES ARE NOW CLOSE TO AN AGREEMENT FOR AN ADDITIONAL 250-260 THOUSAND B/D TO GO TO THE ARUBA REFINERY. A DIFFERENT PRICE FORMULA HAS BEEN WORKED OUT WHICH WILL PROVIDE AN EFFECTIVE DISCOUNT FOR THIS SEGMENT OF OFFTAKE. IN RETURN THE GOV IS ASKING THAT EXXON ADD 30-50 THOUSAND B/D TO ITS BASIC OFFER OF 420 THOUSAND B/D. IF ALL THIS WORKS OUT EXXON WILL BE BUYING IN THE NEIGHBORHOOD OF 700 THOUSAND B/D.

4. DOLPH THOUGH THAT UNDER THESE PRICES SHELL WOULD TAKE 350-400 THOUSAND B/D AND GULF 100 THOUSAND (DOWN FROM THE RECENT LEVEL OF 180,000). HE CALCULATED THAT TOTAL PRODUCTION IN THE FIRST QUARTER MIGHT REACH 1.5 MILLION B/D WITH LIFTINGS AROUND 1.3 MILLION. (COMMENT: HE AND CARLOS ANDRES PEREZ ARE AGREED ON THAT FIGURE - REFTEL.) DOLPH ALSO NOTED, HOWEVER, THAT INVENTORIES ARE EXTREMELY HIGH IN VENEZUELA AND EVEN GREATER PRODUCTION MIGHT WELL HAVE TO BE SHUT IN TEMPORARILY.

5. DOLPH WAS AWARE OF CONSIDERABLE ALARM IN THE GOV OVER THE PROSPECT AS A WHILE, ALTHOUGH HIS OWN CONVERSATIONS WITH MINES MINISTER VALENTIN HERNANDEZ CONTINUED CORDIAL AND BUSINESSLIKE. HE UNDERSTOOD THAT AT A RECENT MEETING WITH THE GOV'S PETROLEUM TEAM PRESIDENT PEREZ HAD TALKED ABOUT DELIVERING A STRONG ATTACK ON THE COMPANIES NEW YEAR'S DAY AND CALLING FOR AN EMERGENCY OPEC MEETING TO TAKE ACTION IN VENEZUELA'S BEHALF. DOLPH OBSERVED THAT EXXON IS WALKING A NARROW LINE. THERE MIGHT INDEED BE A BLOW-UP, BUT THE COMPANY WILL PAY ONLY SO MUCH TO PROTECT ITSELF HERE. HE WAS INCLINED, HOWEVER, TO THINK REASON WOULD ULTIMATELY PREVAIL.

6. I ASKED DOLPH ABOUT THE DEADLINE FOR COMING TO OFFTAKE AGREEMENTS. WE HAD UNDERSTOOD IT TO BE YESTERDAY BUT THE PRESS NOW SAYS TODAY IS THE DAY. DOLPH EXPLAINED THAT UNDER THE TERMS OF EXXON'S DRAFT CONTRACT WITH THE GOV CRUDE PRICES MUST BE ACCEPTED WITHIN 15 DAYS OF THE QUARTERLY OFFER AND PRODUCT PRICES WITHIN 20. THE PRICES WERE GIVEN THE COMPANIES DECEMBER 1, THE TIME PERIOD TO RUN FROM THE FOLLOWING MORNING. BUT NO CONTRACT HAS IN FACT BEEN SIGNED AND NO LEGAL OBLIGATION EXISTS. DOLPH THOUGHT THAT THE COMPANIES WOULD ALL RESPOND MORE OR LESS CONFIDENTIAL

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FORMALLY TODAY BUT THAT PRIVATE BARGAINING MIGHT GO ON A WHILE LONGER.

7. ON LEAVING DOLPH REFERRED TO EXXON'S PROPOSAL TO THE DEPARTMENT THAT THE USG RESERVE ITS RIGHTS UNDER THE NATIONAL-IZATION. HE SAID HE HOPED WE WOULD REFRAIN FROM ANY REPRESENTATIONS TO THE GOV OF THAT KIND UNTIL THE CURRENTLY CHARGED ATMOSPHERE HERE HAS COOLED.

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